



# ROYAL MALAYSIAN CUSTOMS

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## GOODS AND SERVICES TAX

### **GUIDE ON DESIGNATED AREA**

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## INTRODUCTION

1. This industry guide is prepared to assist businesses in understanding matters with regards to GST treatment on Designated Area.

### Overview of Goods and Services Tax (GST)

2. Goods and Services Tax (GST) is a multi-stage tax on domestic consumption. GST is charged on all taxable supplies of goods and services in Malaysia except those specifically exempted. GST is also charged on importation of goods and services into Malaysia.

3. Payment of tax is made in stages by the intermediaries in the production and distribution process. Although the tax would be paid throughout the production and distribution chain, only the value added at each stage is taxed thus avoiding double taxation.

4. In Malaysia, a person who is registered under the Goods and Services Tax Act 20XX is known as a “registered person”. A registered person is required to charge GST (output tax) on his taxable supply of goods and services made to his customers. He is allowed to claim back any GST incurred on his purchases (input tax) which are inputs to his business. Therefore, the tax itself is not a cost to the intermediaries and does not appear as an expense item in their financial statements.

## GENERAL OPERATIONS OF THE INDUSTRY

### Overview of designated areas

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5. As a developing nation, Malaysia strongly encourages the development of export-oriented industries. To support this policy, various facilities have been introduced by the government, namely the formation of licensed warehouses, free industrial and commercial zones, licensed manufacturing warehouses and free ports.

6. Before the implementation of Good and Service Tax (GST), free ports, with minor exceptions, are free from all types of customs duties, excise duties, service tax and sales tax. Under the Customs Act 1967, **free ports are regarded as places**

**outside the Principal Customs Area (PCA).** To maintain this status quo, special provisions and rules are introduced under the GST system for the free ports and they are to be known as 'designated areas'.

## TERMINOLOGY

7. Under the GST legislation, the interpretation of Malaysia, designated area, Langkawi, Labuan, or Tioman are as follows:

- (a) 'Malaysia' excludes designated areas.
- (b) 'designated area' means Labuan, Langkawi, or Tioman
- (c) '*Langkawi*' means Langkawi Island and all adjacent islands lying nearer to Langkawi Island than to the mainland.
- (d) '*Labuan*' means the Island of Labuan and its dependent island viz. Rusukan Besar, Rusukan Kechil, Keraman, Burong, Papan and Daat.
- (e) '*Tioman*' means the Island of Tioman and the islands of Soyak, Rengis, Tumok, Tulai, Chebeh, Labai, Sepoi and Jahat.

## APPLICATION OF GST IN DESIGNATED AREAS

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### Goods and services supplied within or between designated areas

8. Supplies of goods or services, (except for freight services made within or between designated areas (DA) are not subject to GST. This means that there is no output tax imposed on such supplies. A taxable person need not register for GST if he makes supplies wholly within or between designated areas. However, if the taxable person also makes supplies to Malaysia or he makes supplies within Malaysia even though his principle place of business is situated in a designated area, he is required to register for GST if his taxable supplies exceed the prescribed threshold. Supply of freight services between DA is standard rated.

### Goods and services supplied to a designated area

9. For the purpose of GST, goods supplied from Malaysia to designated area are

zero-rated as stated in the Goods and Services Tax (Zero Rate Supplies) Order 20XX. However, services supplied from Malaysia to designated area are subject to GST as they are local supplies.

10. For transportation of goods from Malaysia to a designated area, declaration of dutiable goods must be made in Customs No. 2 form at the exit point in Malaysia. However, declaration of non-dutiable goods must be made in Customs No. 3 form except for those goods transported by air. If by air, the use of airway bill is sufficient. Declaration of goods transported from bonded warehouses and free commercial zones (FCZ) must be made in Customs No. 8 form. Declaration of goods in transit into designated area from overseas must also be made in Customs No. 8 form.

### **Goods and services supplied from a designated area**

11. Goods supplied from a designated area to Malaysia are deemed to be importation into Malaysia. Thus, GST shall be payable on goods supplied to Malaysia as if such supplies were importation into Malaysia.

12. Declaration of dutiable goods must be made in Customs No.1 form in the designated area. Import duty, if any, and GST must be paid at the customs office in the designated area. Declaration of goods transported from a designated area to a bonded warehouse or a free commercial zone must be made in Customs No. 8 form.

13. Supplies of services provided to Malaysia from a service provider in designated area are local supplies. Thus, such services are subject to GST and output tax shall be charged in a tax invoice and accounted in the GST return. The service provider shall have to register as a GST registered person, although his business establishment is located in the designated area, if his taxable turnover the past twelve months exceeds the threshold.

### **FREQUENTLY ASKED QUESTIONS**

**Q1: I am a trader in a designated area, Labuan. If I sell goods only within the designated area, is there any GST implication on the goods?**

A1: There is no GST implication on supply of goods that you made only within the designated area as such supply is not subject to GST.

**Q2: Further to my question in Q1 above, if I engage a financial adviser from a bank in Labuan for my business purposes, is there any GST due on the service rendered?**

A2: There is also no GST imposed on the services provided within the designated area.

**Q3: I am a manufacturer in Tioman. If I sell my goods to a buyer in Labuan, is GST chargeable on the sale?**

A3: Supply of goods between designated areas is not subject to GST. Thus, there is no GST chargeable on the supply.

**Q4: Further to the question in Q3 above, how about the freight services between the designated areas?**

A4: Any supply of freight services between designated areas is standard rated.

**Q5: If I, as a trader in Langkawi seek advisory services from a consultant in Labuan for my business purposes, does the advice attract GST?**

A5: Such services provided between designated areas do not attract GST.

**Q6: I am a businessman in a designated area. If I import goods for the furtherance of my business, is there any GST implication on the imported goods?**

A6: No GST is chargeable on goods imported into a designated area from overseas unless the goods are gazetted by the Minister as subject to GST.. Declaration of goods must be made in Customs No.1 form at the point of importation in the designated area.

**Q7: Further to my question from Q6, if I purchase goods from a person in Malaysia does the purchase attract GST?**

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A7: If you purchase goods from a person in Malaysia, the goods supplied from Malaysia to a designated area are zero rated.

**Q8: As a business man in Langkawi, if I acquire goods from excise warehouse or bonded warehouse in Malaysia does the acquisition attract GST?**

A8: Supply of goods from Malaysia to DA is a zero rated supply. Therefore, there would be no GST incurred when you made purchases from excise warehouse or bonded warehouse. However, based on customs procedure, the movements of the goods from such premises must be declared in Excise No.8 and Customs No.8 forms respectively. The goods must be transported by bonded truck or sealed container approved by Royal Malaysian Customs (RMC) from the premises to the customs office in the designated area.

**Q9: If I buy a car from a trader in Langkawi for the furtherance of my business in the designated area, is the purchase subject to GST?**

A9: No GST chargeable if a car is purchased in Langkawi irrespective of whether the car is bought for private or for business use because cars supplied in Langkawi are not subject to GST. However, the car must be used in Langkawi. If it is used outside Langkawi, then customs duty and GST become payable unless the conditional exemption is met. Similar treatment will apply for cars bought in Labuan. However, vehicles brought into or supplied in Tioman are subject to GST.

**Q10: If I am a car dealer in Langkawi, do I have to pay GST on vehicles bought from the Malaysia as well as on imported cars?**

A10: There is no GST imposed on cars imported from overseas into Langkawi. However, cars purchased and transported from Malaysia are zero rated. Declaration of the cars must be made in accordance with where the cars are removed from. Imported cars from overseas must be declared in Customs No. 1 form at the point of importation in Langkawi.

However, cars transported from excise premise in Malaysia to a designated area must be declared in Excise No. 8 and Customs No. 2 forms in Malaysia. If cars are removed from a licensed warehouse under the Customs Act 1967, declaration of the cars must be made in Customs No.8 form. Such forms shall then be endorsed by the proper officer of customs as a proof of transportation from Malaysia at the checkpoint in the designated area.

**Q11: If I am an operator in a free commercial zone at Port Klang, what is GST implication on my goods supplied and transported to a designated area?**

A11: GST on supply of goods from the free commercial zone to a designated area is **suspended**. However, the goods transported into DA must be declared in Customs No.8 form.

**Q12: I am an exporter whose goods are currently warehoused in an Inland Clearance Depot (ICD). If I would like to transport my goods to Tioman, can I zero rate my goods?**

A12: You can **zero rate** the goods when they are transported to the designated area.

**Q13: I am a trader in Penang. If I have purchased goods locally for transporting them to my customer in Labuan, can my local purchase be zero-rated?**

A13: Your purchase cannot be zero rated by your supplier because it is a local supply. You can zero rate the goods when you transported them to Labuan.

**Q14: If a machine needs to be transported from Malaysia to Labuan for repair and is subsequently returned, what is the GST treatment on the movements of such goods?**

A14: GST is zero rated when you transport the machine to Labuan for repair. However, GST is imposed on the value of the parts or components replaced on the machine when it is transported back to Malaysia as it is deemed

imported into Malaysia. GST relief may be given under item XX of the Goods and Services Tax (Relief) Order 20XX for temporary export supply from Malaysia, subject to approval from the Director General.

**Q15: I have a company and my office is located in Langkawi. However, the premise where the business operation is conducted is located at the mainland in Kedah. I issue the bill for the taxable supply that I sell to companies in Malaysia from my office in Langkawi using the address there. Do I have to account for my output tax?**

A15: Your company's office is located in a designated area but you supply goods from a premise in Malaysia to companies which are also located in Malaysia. Hence, it is a local supply which is subject to GST. You have to charge GST as your output tax and account the tax in your GST return.

**Q16: If I, as a businessman in Labuan, hire a consultant from Kuala Lumpur to advise me on my business prospect, is there any GST implication on the consultation service provided to me?**

A16: The service provided to you shall be standard rated by the service provider if the supply of service is made in Kuala Lumpur. However, no GST is charged if the service provider from Kuala Lumpur comes to Labuan and provides the service in Labuan.

**Q17: Do incidental services such as freight and handling charges provided by companies located in Malaysia for transporting goods to a designated area attract GST?**

A17: Services such as freight and handling charges provided by companies located in Malaysia for transporting goods would attract GST even though the services are provided to a designated area and goods are zero-rated.

**Q18: Are services provided from outside Malaysia into designated area subject to GST?**

A18: Services provided from overseas into designated area are imported services. There is no GST chargeable on such services.

**Q19: If I am a manufacturer in Langkawi and I would like to export my products to South Africa, what is GST implication on the exportation of such goods?**

**A19:** Goods that you wish to export to South Africa or to any other countries are zero-rated. Declaration of exported goods must be made in Customs No.2 form in the designated area.

**Q20: I am a trader in a designated area, Langkawi. If I sell my products to a person in Malaysia is GST chargeable on the sale?**

**A20:** If you sell your goods to a person in Malaysia, the goods supplied to Malaysia are deemed to be imported into Malaysia. Thus, import duty and GST shall be payable at the customs office in Langkawi. Declaration of the goods must be made in Customs No.1 form.

**Q21: If I am a trader in Malaysia and I would like to purchase goods from Labuan, where and how should I pay GST on the goods that I brought into the Malaysia?**

**A21:** Goods that you purchased from Labuan are deemed to be imported goods from a designated area into Malaysia. Hence, customs duty and GST are imposed at the exit point in the designated area. Since you are in Malaysia you can declare the goods yourself or appoint an agent and register the name of such agent with the proper officer of customs in the designated area for customs clearance purposes.

**Q22: Further to my question in Q21 above, can I pay the tax at the entry point in Malaysia if I have not appointed an agent for such purposes?**

**A22:** If you have not appointed an agent for customs clearance purposes, the exporter in the designated area shall be deemed to be your agent, or the proper officer of customs may in lieu of accepting the duty and GST in the designated area, direct that such duty and GST be paid at the entry point or any place within Malaysia at which the imported goods may be produced to the customs.

**Q23: If I am a manufacturer in Malaysia and I am also a participant under Approved Trader Scheme (ATS), do I have to pay the tax at the point of importation in a designated area if I purchase goods from the designated area?**

A23: If you are a participant under ATS, you do not have to pay GST on your deemed imported goods at the point of importation in the designated area as the tax is suspended under this scheme. However, you must declare the goods at the approved entry point in Malaysia. ***For further details, please refer this to the ATS guide.***

**.Q24: I am a manufacturer in Selangor and I have an agreement to lease a machine from a trader in Labuan for a period of two years. The equipment will be sent to my premise in Selangor and will be returned to Labuan as soon as the contract expired. What is the treatment of GST on the lease?**

A24: Under the normal rule of GST, lease of goods is a supply of services and GST is imposed on the payment made regularly. However, if the lease involve goods transporting from a designated area into Malaysia, the lease is deemed to be an importation of goods. In your case, when the machine is sent to you, that machine is subject to GST at the exit point in Labuan. Nevertheless, if you are a registered person, GST paid on the import is claimable as your input tax credit.

**Q25: If a machine needs to be transported temporarily into Malaysia from Labuan for repair and subsequently returned, is there any GST charged on the movements of such goods?**

A25: Temporary import is given relief under Goods and Services Tax (Relief) Order 20XX. However, GST is chargeable on the components or parts used and on the service provided for repairing the machine. The machine can be zero rated when it is returned to Labuan.

**Q26: Are goods purchased and taken out from a designated area by tourists into Malaysia subject to GST?**

**A26:** Goods sold to tourists regardless of whether they are local or from overseas are free from duty and GST. However, local tourists must prove that they have visited Langkawi and Tioman for a period of not less than 48 hours at the point of departure to become eligible for the exemption. For Labuan visit, local tourists would have to provide proof of their stay for a period of not less than 24 hours.

Apart from that, tourists are allowed to buy goods not exceeding the quantity approved as stated in the the Goods and Services Tax (Relief) Order 20XX. If goods purchased exceed the approved quantity, then customs duty and GST would have to be paid on the excess quantity at the customs office before leaving the designated area.

**Q27: I am a resident in Langkawi. If I would like to go to Penang by a car which I have registered in Langkawi, is there any GST implication on the car driven out of Langkawi to Penang?**

A27: Temporary GST relief is given for such cars registered in Langkawi and Labuan under the Goods and Services Tax (Relief) Order 20XX when they are brought into the country on temporary basis.

**Q28: Is there any GST implication on the cars registered in Tioman when they are driven out of the island?**

A28: There is no GST implication on the cars brought into Malaysia from Tioman since such cars are subject to GST when they are registered for use in the island.

**Q29: I have a construction company and my office is located in Kota Kinabalu. However, the premise for running the business is located in Labuan. I issue the bill from Kota Kinabalu for the services provided by me. What is the GST implication on the services provided from the designated area if my customers are in Malaysia and in the designated area as well?**

A29: Supply of services made within a designated area is not subject to GST. However, the services that you provide to your customers in Malaysia are considered as local supplies. Hence, GST is chargeable on the supply of services if you are a taxable person.

**Q30: Are incidental services such as freight and handling charges for transportation of goods provided by a transport company located in designated area subject to GST?**

A30: Services and other charges provide by a company located in a designated area are not subject to GST if they are supplied within designated areas. However, services provided from a designated area to Malaysia, and vice versa are considered as local supplies. Thus, such services are subject to GST. In such cases, the service provider would have to register as a GST registered person even though his business establishment is located in a designated area, if the taxable turnover exceeds the prescribed threshold.

**Q31: I am an operator in Labuan. I supply machinery equipment and spare parts to an oil rig sites at the sea of Sabah coastal area. What is the GST treatment on the spare parts transported to the oil rig?**

A31: Your transportation of goods from Labuan to a person in oil rig sites is deemed to be imported into Malaysia. Thus, it is subject to GST unless you are given relief under Goods and Services Tax (Relief) Order 20XX.

## FEEDBACK AND COMMENTS

14. Any feedback or comments will be greatly appreciated. Please email your feedbacks or comments to either Mohd Hisham B. Mohd Nor ([m\\_hisham.nor@customs.gov.my](mailto:m_hisham.nor@customs.gov.my)) or Aminul Izmeer B. Mohd Sohaimi ([izmeer.msohaimi@customs.gov.my](mailto:izmeer.msohaimi@customs.gov.my)).

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